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UNCLAS ANKARA 004551

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SUBJECT: FUND MISSION AND GOT REACH AGREEMENT ON LOI, SHOOT
FOR AUGUST 1 BOARD DATE

REF: ANKARA 4480

1. (SBU) IMF Mission Director Reza Mogdaham and State Minister Ali Babacan announced July 20 that they had reached initial agreement on a Letter of Intent. In a brief telephone call, IMF ResRep (protect) advised July 21 that, assuming IMF management approval of the agreed-upon text, they hope to sign the LOI this Friday (July 25) and have the Board review the following Friday (August 1). He said Fund staff supported this accelerated approach to compensate for some of the delays in completing the Fifth Review.

2. (SBU) As reported reftel, the main factor facilitating the agreement was the GOT's decision to take a series of measures to close the projected TL 2.5 quadrillion fiscal gap in this year's budget. IMF ResRep said implementation of these measures -- already underway -- along with Parliamentary passage of the two remaining pieces of social security legislation, without amnesty provisions, were prior actions for the Board review. We understand the full Parliament will consider these two bills this week. (Note: The press reported last week that Parliament had approved the legislation; in fact, only a Parliamentary committee had approved them. End note) ResRep said a Fund technical assistance team had made good progress working with the GOT to narrow differences on a proposed social security amnesty. Based on that, ResRep is now hopeful that the GOT's proposal on this issue will address the Fund's concerns.

3. (SBU) ResRep said Fund staff continue to work with GOT officials on the Financial Management and Control Law as well as direct tax reform legislation. On the latter, he said the GOT had "so many bad ideas" that Fund staff had asked them to postpone the legislation, pending arrival of another Fund technical assistance team. Embassy will report more fully on structural issues following a July 23 meeting with ResRep.

4. (SBU) Separately, the Central Bank intervened in the currency markets in a big way on Friday, buying \$940 million above its normally daily purchase in response to what the Bank called excessive volatility. The intervention (actually the Bank intervened 2-3 times during the course of the trading day) pushed the lira, which had reached TL 1.375 million/dollar, back to TL 1.4 million/dollar before it recovered to close at TL 1.395 million. The Bank also cut overnight interest rates three percentage points and increased its daily dollar purchases from \$40 to \$50 million late last week. Local analysts, such as Istanbul-based Bender Securities, are growing increasingly skeptical of the Bank's claim that it is intervening only in response to excessive volatility.

PEARSON